AGENDA ITEM K-4

CITY OF LODI
COUNCIL COMMUNICATION

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AGENDA TITLE: Presentation of financing options for outstanding Electric Utility Variable Rate Debt Obligation Certificates of Participation (**$46.7** million) and authorization for City Manager to procure necessary services related to restructuring these obligations.

MEETING DATE: April 2, 2008

PREPARED B Y Deputy City Manager

RECOMMENDED ACTION: Receive presentation on financing options for outstanding Electric Utility outstanding variable rate debt obligations and authorize City Manager to procure financing services including bond counsel, underwriting services, letter of credit or other credit enhancement facility, and other costs as necessary.

BACKGROUND INFORMATION: The Electric Utility has approximately **$46.7** million of outstanding Variable Rate Debt Obligations (VRDOs), which were issued in January 2002. This type of debt offers the holders the opportunity for early redemption of their certificates. As a result of financial market conditions, some of the holders of these VRDOs have exercised their right to redeem these certificates. At this time, there are $2.5 million of these certificates that have been redeemed and not remarketed by the city's agent (Citigroup). These COPs were redeemed in early March and there has been no additional redemptions of these securities.

In early March the City of Lodi engaged its financial advisor, Lamont Financial Services, to explore alternatives and recommend possible solutions to reduce the potential additional costs associated with these early redemptions. There are several courses of action that are possible to address this emerging issue.

All options and the associated costs and resulting debt service scenarios were not available at the time of this communication. Staff will review the various elements of the financing structures available for the VRDOs on April 2nd along with a recommendation to pursue one of the alternatives or to defer until a future meeting pending final determination of costs or other factors needed to make a decision on this issue.

FISCAL IMPACT: Not Applicable

FUNDING AVAILABLE: Not Applicable

James R. Krueger, Deputy City Manager

APPROVED: Blair King, City Manager

Summary of Alternate Refunding Scenarios

Scenario	Description	Put Bond Yld. Spread		Par Amount Issued	Maximum Change8 to Net Annual Revenue Requirement* $	FY Ended	Average $ Increase	Risk Factors/ Market issues
1	(Unenhanced Refunding. Terminate Swap)			64,340,000	2,018,700	06/30/09	1,431,924	
2	(Unenhanced Refunding, Don't Terminate Swap)			54,190,000	2,430,260	06/30/10	1,089,513	
3	(Insured Refunding. Terminate Swap)			58,360,000	1,287,461	06/30/09	677,084	Least Risk, ? Ability lo market
4	(Insured Refunding. Don't Terminate Swap)			49,110,000	1,898,479	06130110	443.204	Next to least risk, ? Ability lo market
5	(LOC Backed 3 Year Put Bond Refunding. Don't Terminate Swap)							
A		0.75%		52,180,000	2,730,355	06/30/10	1,405,753	
B		1.50%		53,840,000	2,759,925	06/30/10	1,903,531	
C		2.25%		54,275,000	3.W9.271	06/30/10	2,255,416	
8	(LOC Backed 5 Year Put Bond Refunding, Don't Terminate Swap)							
A		0.75%		52,705,000	2,753,888	06/30/10	1,511.885	
B		1.50%		54,370,000	2,809,981	06130110	1,946,979	
C		2.25%		54,805,000	3,051,879	06130110	2,321,207	
7	(LOC Backed VRDO Refunding. Don't Terminate Swap)							
A		3 Yr. Rate Cap	4.00%	54,010,000	1,030,542	06/30/13	693.235	
B		3 Yr Rate Cap	5 00%	53,905,000	1020,363	06130113	685,122	
C	[redacted]			53.865 000	1,017,764	06130113	670.901	Higher risk, easier to market
D		No rate cap		53 725,000	1005 765			
8	(LOC Backed VRDO Refunding. Terminate Swap)							
A		3 Yr Rate Cap	4.00%	64,135,000	1,293,788	06/30/19	960.963	
B		3 Yr Rate Cap	5 00%	64,010,000	1,284,096	06/30/19	947,751	
C		3 Yr. Rate Cap	6.00%	63,960,000	1,275,900	06130119	[redacted]	Higher risk. easier lo market
D		No rate cap		63,790,000	1263,214	06130119	934,686	

Best options　　Next best options

MBIA

- City of Lodi paid ~$400K for Bond Insurance in 2002 for VRDOs
- Fitch ratings service has put MBIA on negative watch
- Options
  - Issue new bonds without MBIA as insurer
    - Fixed interest
    - VRDO with Letter of Credit

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D		No rate cap		63 790 000	1 263 2'4	06130119	934,686	

Best options [redacted]

Detailed Results Of Subprime Stress Test Of Financial Guarantors

Standard & Poor's Ratings Services, continuing its series of stress tests of the monoline financial guarantors with respect to their domestic nonprime mortgage exposure, today announced several rating actions (see "S&P Takes Additional Bond Insurer Rating Actions," published Feb. *25).*

For this review, we developed a set of net cumulative loss assumptions by asset type and vintage that we believe will likely turn nut to be no less than, and perhaps higher than, the ultimate loss levels experienced. **As** such, save for the possibility of materially adverse asset class performance beyond our current expectations, we view this stress test as one that will retain its relevance over time.

Nevertheless, given the unprecedented level of mortgage market deterioration that has occurred, we remain circumspect about assigning stable outlooks to insurers even if they have sufficient capital when measured against our projected stress case losses. Accordingly, we will still assign negative outlooks to those firms with significant exposure to domestic nonprime mortgages and/or meaningful lower credit quality exposures. The assignment of a negative outlook may also reflect our assessment with regard to the comprehensiveness and degree of completion of projected capitalization strengthening efforts underway.

The financial strrngth ratings of Assured Guaranty Corp. (AAA/Stable), Financial Security Assurance Inc. (AAA/Stable), and Radian Asset Assurance (AA/Stable) were not reviewed in conjunction with this latest stress test. These companies do not have material amounts **of** direct nonprime mortgage or ABS CDO exposure and therefore, in our view, are not at risk to have significant losses from these sectors. We also did not review the 'CCC' financial strength rating of ACA Financial Guaranty Corp. because the company is in negotiations to modify its obligations to its counterparties. ACA's rating remains on Creditwatch with developing implications, reflecting the dual possibilities that a favorable result of the negotiations could improve the company's credit standing, while a negative outcome could leave the company with significant liquidity and capital shortfalls.

Rating **Actions**

- The **'AA'** financial strength rating of Financial Guaranty Insurance Co. has been lowered to 'A' and remains on Creditwatch with developing implications.
- The 'AAA' financial strength ratings of **XL** Capital Assurance Inc. and **XL** Financial Assurance Ltd. have been lowered to 'A-' and remain on Creditwatch with negative implications.
- The 'AAA' financial strength rating of MBIA Insurance Corp. has been affirmed and has been removed from Creditwatch. The outlook is now negative.
- The 'AAA' financial strength rating of Ambac Assurance Corp. has been affirmed and remains on Creditwatch with negative implications.
- The 'AAA' financial strength ratings of CIFG Guaranty, CIFG Europe, and CIFG Assurance North America Inc. have been affirmed and continue to have negative outlooks.